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Message Text

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ACTION XMB-04

INFO OCT-01 ARA-06 ISO-00 EB-08 COME-00 TRSE-00 CIEP-01
OMB-01 AID-05 IGA-02 AGRE-00 OPIC-03 CIAE-00 INR-07
NSAE-00 INT-05 SP-02 USIA-06 NSC-05 SS-15 STR-04
CEA-01 FRB-03 LAB-04 SIL-01 PA-01 PRS-01 H-01 L-03
/090 W
----------032158Z 039543 /70
R 031404Z FEB 77
FM AMEMBASSY KINGSTON
TO SECSTATE WASHDC 3958

C O N F I D E N T I A L KINGSTON 0544

ATTN: EXIMBANK CRAFTON

E.O. 11652: GDS
TAGS: EGEN, ECON, EFIN, JM
SUBJECT: JAMAICA-DETERIORATING ECONOMIC AND FINANCIAL SITUATION

REFERENCE: STATE 023055

1. EXIMBANK AND DEPARTMENT SHOULD BE AWARE THAT GOJ IS PARTICULARLY SENSITIVE OVER EXIMBANK EVALUATION OF JAMAICA AS A CREDIT RISK. IN THE PAST PRIME MINISTER MANLEY HAS CITED EXIMBANK RE-EVALUATION AS EVIDENCE OF US DESTABILIZATION CAMPAIGN. THEREFORE WE RECOMMEND THAT ALL ASPECTS OF RE-EVALUATION PROCEDURE BE TIGHTLY HELD AND THAT CONSIDERATION BE GIVEN TO POLITICAL AS WELL AS TECHNICAL EFFECTS OF RE-EVALUATION.

2. IN RESPONSE TO QUESTIONS POSED REFTEL:

A. BALANCE OF PAYMENTS: JAMAICA IS IN THE MIDST OF A SEVERE BALANCE OF PAYMENTS CRISIS. NET FOREIGN EXCHANGE RESERVES WENT FROM PLUS $57 MILLION (ALL FIGURES IN JAMAICAN DOLLARS US1.10 EQUAL J1.00) TO MINUS $120
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MILLION IN 1976. (END OF YEAR 1976 FIGURES ARE EMBASSY ESTIMATES). ALTHOUGH IMPORTS WERE REDUCED FROM 1975 LEVELS (FROM $1,123.5 MILLION TO $935 MILLION), THE BALANCE OF TRADE DETERIORATED TO A MINUS $349 MILLION DOLLARS DUE TO A MAJOR REDUCTION IN THE VALUE OF EXPORTS. THE BALANCE OF PAYMENTS PROGLEM WAS COM-POUNDED BY EXTENSIVE ILLEGAL CAPITAL FLIGHT, A GROWING

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DEBT SERVICING BURDEN, AND THE DRYING UP OF TRADI-
TIONAL FOREIGN SOURCES CREDIT. THE PROBLEM BECAME A
CRISIS IN LATE DECEMBER WHEN A RUN ON FOREIGN EXCHANGE
REDUCED GROSS RESERVES TO $25 MILLION AND FORCED THE
GOVERNMENT TO CLOSE THE FOREIGN EXCHANGE MARKET. IT
WAS PARTIALLY REOPENED IN JANUARY. IT IS THE
EMBASSY'S VIEW THAT THERE WILL BE SIGNIFICANT DELAYS IN
THE REPAYMENT OF PRIVATE SECTOR FOREIGN DEBT
THROUGHOUT 1977 AND THAT THE GOVERNMENT MAY WELL BE
UNABLE TO MEET ITS OWN DEBT REPAYMENT SCHEDULES BY MID-
YEAR.

B. EXPORT EARNINGS: EXPORT EARNINGS WERE DOWN
TO $586 MILLION IN 1976 FROM $784 MILLION IN 1975.
THIS WAS PRIMARILY BECAUSE OF A DECRESE IN THE
WORLD MARKET FOR ALUMINA AND BAUXITE AND BECAUSE OF
A REDUCTION IN THE PRICE OF SUGAR AND TOURIST RE-
CEIPTS. THERE SHOULD BE A SIGNIFICANT IMPROVEMENT
IN THE BAUXITE/ALUMINA MARKET IN 1977 BUT THE PRICE
OF SUGAR IS EXPECTED TO STAY LOW. IN ADDITION, THERE
IS LITTLE LIKELIHOOD OF AN IMPROVEMENT IN TOURISM OR
THE OTHER EXPORTS. AS A RESULT WE WOULD NOT EXPECT
1977 EXPORT EARNINGS TO APPROXIMATE 1975 LEVELS;
HOWEVER, THEY SHOULD BE IMPROVED OVER THOSE IN 1976.

C. THE EMBASSY ESTIMATES THE TOTAL FOREIGN DEBT
OF THE GOVERNMENT OF JAMAICA AT ABOUT 400 MILLION DOLLARS.

D. THE EMBASSY ESTIMATES OF BAUXITE, ALUMINA AND
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SUGAR PRODUCTION ARE AS FOLLOWS (000 TONS):

	1975	1976	1977
BAUXITE	11,388	11,000	16,000
ALUMINA	2,299	1,600	2,200
SUGAR	355	353	325

A DECLINE IS EXPECTED IN SUGAR PRODUCTION BECAUSE OF
THE EFFECTS OF THE SUGAR CANE SMUT DISEASE.

E. THE METHOD BY WHICH EXPORTERS WILL RECEIVE
PAYMENT DURING 1977 HAS NOT YET BEEN FINALLY
DETERMINED. AS OF NOW, JAMAICAN IMPORTERS MUST
SECURE AN IMPORT LICENSE, EVEN WHEN PURCHASING
IMPORT ITEMS ON A NON-FUNDS BASIS. THE IMPORTER
MUST APPLY THROUGH HIS COMMERCIAL BANK TO THE

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BANK OF JAMAICA WHICH THEN EVALUATES THE LICENSE ON THE BASIS OF PRIORITY AND THE AVAILABILITY OF EXCHANGE RESERVES. JAMAICAN IMPORTERS HAVE BEEN ASKED TO SPECIFY IN DETAIL THE METHOD OF PAYMENT, AND IN SEVERAL INSTANCES THEY HAVE BEEN TOLD THEY MAY NOT RECEIVE FOREIGN EXCHANGE UNTIL THE GOODS HAVE ACTUALLY LANDED. ONCE THE IMPORT LICENSE IS APPROVED, THE FOREIGN EXCHANGE IS AUTHORIZED AND IS CURRENTLY BEING PAID -- WITH SOME BUREAUCRATIC DELAYS. HOWEVER, AS THE AVAILABILITY OF FUNDS IS REDUCED IT CAN BE EXPECTED THAT THERE MAY BE MORE APPRECIABLE DELAYS IN SECURING PAYMENT. THE EMBASSY WILL REPORT ANY NEW PROCEDURES.

3. WE ARE CONVINCED THAT IN PRESENT SITUATION, GOVERNMENT OF JAMAICA WILL DO ALL WITHIN ITS POWER TO MEET ITS DEBTS. THUS, WE ANTICIPATE THAT OF THE CONFIDENTIAL

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FOREIGN EXCHANGE WHICH IS OR BECOMES AVAILABLE, IT WILL BE USED FIRST TO PAY GOJ OBLIGATIONS. WHATEVER REMAINS WILL THEN BE USED TO MEET COSTS OF BASIC ESSENTIAL ITEMS; WE WOULD THINK FOOD ITEMS WILL COME FIRST IN THIS GROUP. AFTER THAT, WE WOULD LOOK FOR PRIORITY TO BE GIVEN TO DEVELOPMENT-RELATED ITEMS AND TO THOSE WHICH CONTRIBUTE TO INCREASED PRODUCTION, EITHER IN AGRICULTURE OR IN THOSE INDUSTRIES PRODUCING GOODS FOR EXPORT OR IMPORT-SUBSTITUTION.
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Sent Date: 03-Feb-1977 12:00:00 am
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